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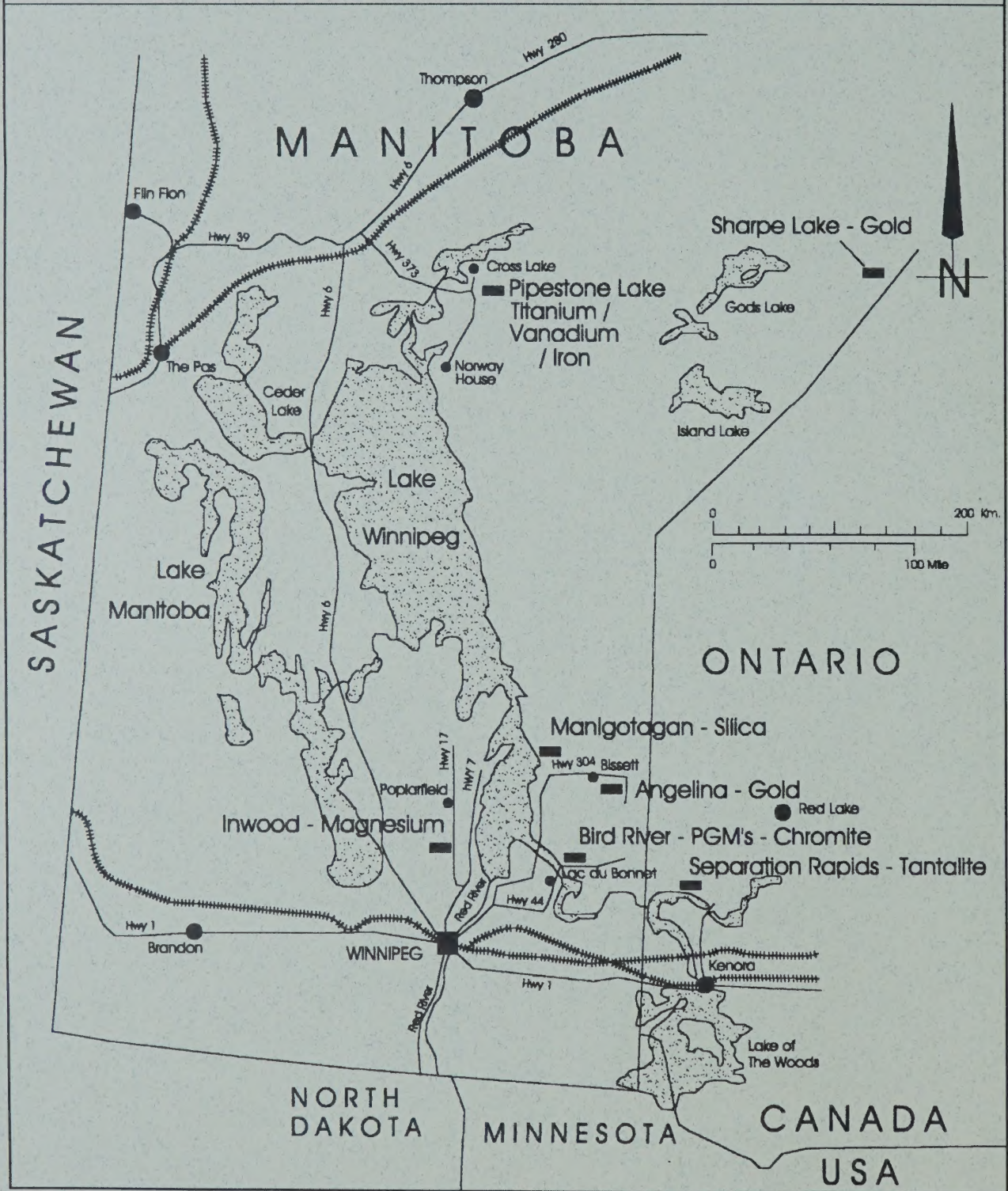
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GOSSAN RESOURCES LIMITED



2004 Annual Report

GOSSAN RESOURCES LIMITED - PROPERTY LOCATIONS



PRESIDENT'S REPORT TO SHAREHOLDERS

This past year has been a busy one for your company in regard to exploration of our various projects. Although gold and platinum prices have wavered slightly they still remain in positive territory and have stirred excitement in our precious metal properties. We have been encouraged at the Angelina and Sharpe Lake Properties by the results of our two airborne geophysical surveys and the summer's ground geological programs have been successful in developing further targets for the winter exploration program. We expect to have the data compiled and processed for early in the new winter exploration season.

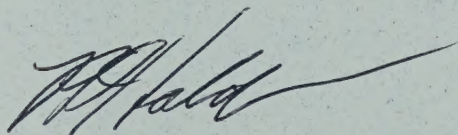
Our Inwood Magnesium project has progressed through testing of our dolomite for its suitability with Mintek's new low cost silicothermic technology for the production of magnesium metal. We visited Mintek and the pilot plant with the Assistant Deputy Minister of Manitoba Industry and Trade Ms. Dianne Gray in April. Our Inwood dolomite proved to be better than what has been considered the benchmark by Mintek for quality and low contaminants. A larger bulk sample is to be sent for further testing early in the new year. Following a successful test campaign, Gossan will move to the next phase of the pre-feasibility study with our engineering firm Hatch Ltd. Hatch has extensive experience in the magnesium refining industry.

Significant outside interest in our Silica Sand project near Seymourville, MB has been expressed and we will be moving forward with a drill program to prove up the size and grade of the deposit estimated by the Manitoba Industrial Mineral department at 50 millions tons. A reverse circulation drilling rig will be used to sample the deposit. Manitoba has broken the weather records for the coldest and wettest summer which has slowed access to the Silica sand project. The drilling should be completed before winter.

Our partners, Angus and Ross PLC have completed a exploration program including drilling and geochemical sampling on our Separation Rapids specialty metals project in north western Ontario. Results are not available at this time.

Gossan has retained the valuable knowledge and experience of J.W. Campbell, Honourary Chairman, who has provided ongoing assistance in the search for new property assets. Several properties are under current serious review.

Our efforts are aimed at ensuring that shareholder value is maximized and sustainable. It is my pleasure to thank Gossan's directors and our staff for their efforts. I thank all of the shareholders for their support. We anticipate many significant advances in the coming months and look forward to keeping you informed of our progress.



Patrick Holden
President and Director
August 10, 2004



Angelina Gold

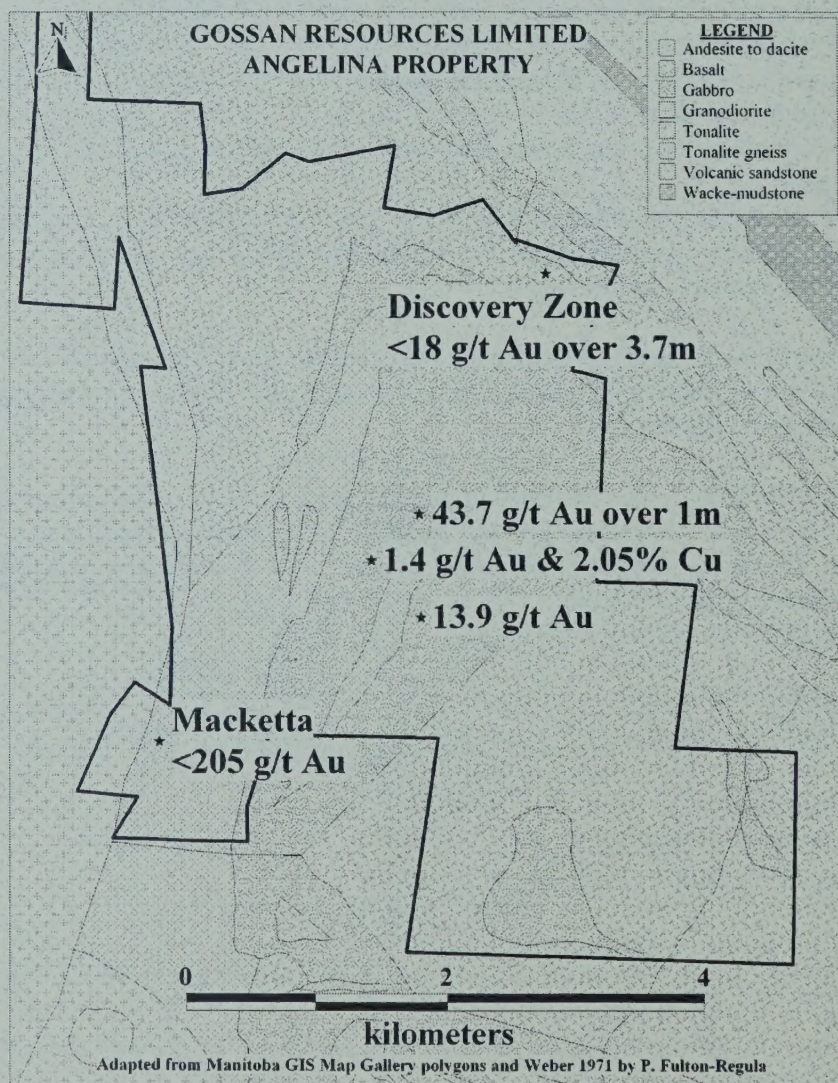
The 2528-hectare Angelina Property is located 27 km southeast of Bissett within the Rice Lake greenstone belt, Manitoba's most significant gold district. The Angelina Property is situated between Mid North Resources Corp.'s Cryderman and Central Manitoba Mine properties, which are being explored under option to Placer Dome Inc. Between 1927 and 1937, the Central Manitoba Mine produced 137,817 ounces of gold at an average grade of 0.36opt gold. Elsewhere within the active Bissett gold camp, the San Antonio mine had historic gold production of 1.4 million ounces. Gossan also holds three additional gold properties in the Bissett area totaling 1749 hectares.

Aerial photographs and geological mapping have identified two major NW-SE trending shear systems extending up to 1 km in width that can each be traced on the property along strike in excess of 2 km. The most easterly shear system is on strike with the former producer, the Cryderman Mine, approximately 5 km to the northwest. Quartz veining, sulphide and gold mineralization occurs in association with a series of shear zones and folds comprising each system.

During the year Gossan completed a 542 line-km airborne, high density, low-level magnetic and electromagnetic survey over the property. In addition to defining the existing areas of known gold mineralization, the survey identified three new high-priority targets.

In the spring of 2004, a 10 hole, 955-metre drill program was undertaken at the Discovery Zone in the northeastern corner of the property. Although gold mineralization was encountered, it was not of economic grade and width.

A summer field program was recently conducted over much of the property. Several new areas of interest were identified on the property and high-grade gold mineralization was confirmed at the recently acquired Macketta showing with three grab sample assays ranging from 31gpt to 205.7gpt gold.



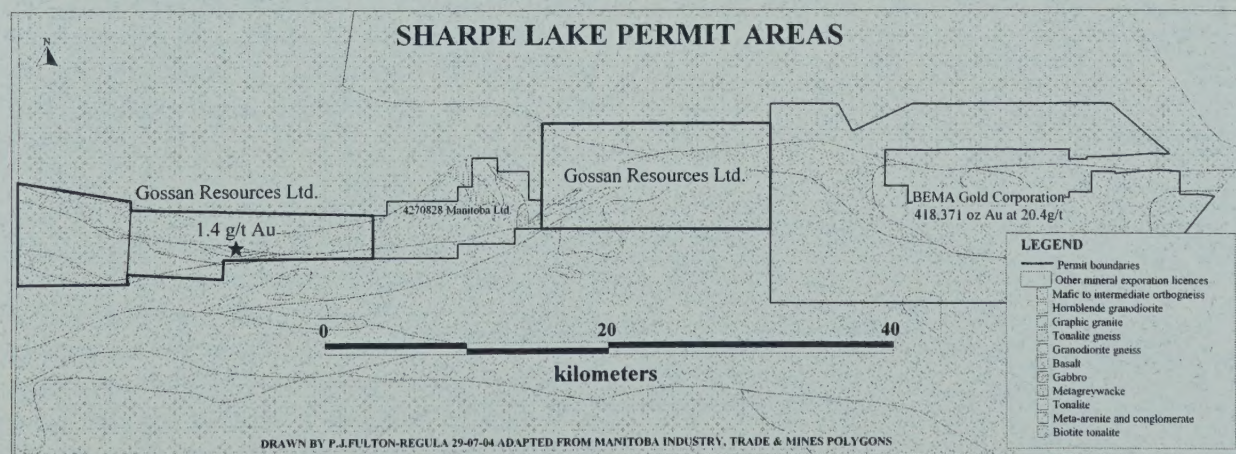
Sharpe Lake Properties

Gold

The Sharpe Lake Properties which cover 23,273 hectares are located in northeastern Manitoba between the formerly-producing God's Lake Gold Mine and adjacent to the Wolfden-Bema Gold Joint-venture which straddles the Ontario border, approximately 560-km northeast of Winnipeg. The Sharpe Lake Properties cover the western strike-extension of the deformation zone that transects the Monument Bay-Twin Lakes area where the Wolfden-Bema Gold J-V is continuing to conduct drill programs and has calculated a resource, as at August 7, 2003, totaling 418,371 ounces of gold grading 20.4 gpt (0.60 opt).

Last fall the Manitoba Geological Survey reported that gold mineralization was identified on a Gossan property at the west end of Sharpe Lake. This discovery confirms the gold prospectivity of the Sharpe Lake area in alteration zones developed within the Stull Lake-Wunnummin Fault Zone (SWFZ), a major gold metallotect. The SWFZ and its related greenstone belt trend east-west under Sharpe Lake and transect Gossan's three exploration permits over a 40-km strike length.

In the spring of 2004, Gossan conducted a 3510 line-km airborne magnetic survey over the properties. A four-man exploration crew began a program of geological mapping and geochemical sampling in August of 2004 with the goal of establishing drill targets.



Bird River Property

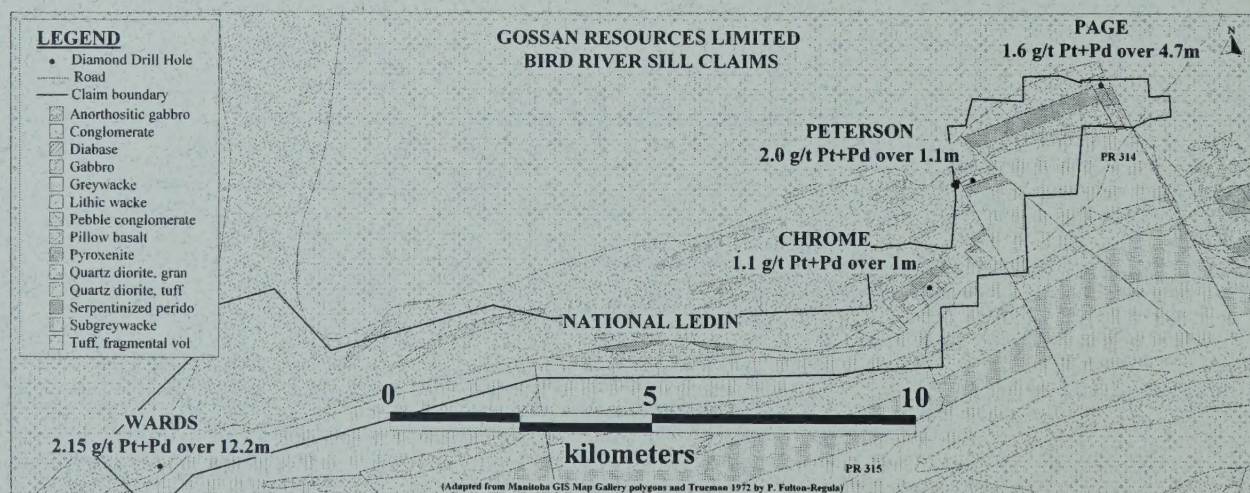
Palladium Platinum & Base Metals

In June of 2004, this property was again materially expanded through the acquisition of an additional 9 kilometres of the PGM-prospective Bird River Sill Complex. This new ground is located immediately adjacent to the west of Gossan's existing Bird River Property and covers the extension of the Sill over to Wards. Of particular interest is a prior drill hole located near the western end of this new ground which assayed 1.0gpt platinum and 1.15gpt palladium over 40 feet, including two 10-foot sections which returned 3.1gpt Pt+Pd. This drill hole was undertaken by Canex Placer Limited in 1973.

The Bird River Property now encompasses 3,428 hectares (8467 acre) and covers 21 kilometres of the Bird River Sill Complex. It is comprised of the new Western Extension and 4 separate faulted blocks – the National Ledin, the Chrome, the Peterson and the Page. Locally, about 500 to 600 metres thick, the Bird River

Sill is a differentiated gabbroic complex, which trends east-west, dips steeply to the south and is subdivided into a basal ultramafic, a transitional and an upper mafic series. This complex carries important concentrations of palladium and platinum along with nickel, copper, zinc and chromite. The property is located about 40 km east of Lac Du Bonnet, Manitoba.

Over the past winter, Gossan conducted a field program on the Page block, located at the eastern end of the property. The work consisted of line cutting and a 60 line-km HLEM geophysical survey. A follow-up program of geological mapping and sampling was recently completed this summer in preparation for a drill program. In 2001, Manitoba Industry, Trade and Mines conducted a re-assaying program at the Page Property which identified a 4.7 metre section of drill core grading 1.38% copper, 1.43% nickel and 1.6 gpt palladium which included a rich 20-cm section running 3.61% nickel and 7.2 gpt platinum and palladium.



Pipestone Lake Deposit

Titanium Vanadium & Iron

Our 50% joint-venture partner in the Pipestone Lake Deposit, Cross Lake Mineral Explorations Inc., is a wholly-owned private corporation of the Cross Lake First Nation. It has been involved in protracted negotiations with the Federal and Provincial governments to settle the Nelson River Flood Agreement. Development of the Pipestone Lake Deposit has been stalled pending this settlement. As a result, Gossan decided to offer the 3584-hectare property for sale. Negotiations are on-going.

Paints, paper and plastics are the main users of titanium dioxide, while the magnetite and vanadium pentoxide are mostly used in the steel industry. Vanadium and iron prices have strengthened over the recent past.

The Pipestone Lake property is located in north central Manitoba, approximately 150km south of Thompson. At the Pipestone Lake's main, central and disseminated zones, drilling to date has outlined an inferred resource of 65.8 million tonnes grading 6.1% TiO₂, 30.4% Fe₂O₃ and 0.27% vanadium pentoxide. This resource is contained within a drill-indicated exploration target of 155 to 340 million tonnes with an approximate grade of 5.5% TiO₂, 28.1% Fe₂O₃ and 0.22% vanadium pentoxide. Both of these tonnages are estimated to only 300 meters in depth (Reedman & Associates-1998). More infill drilling could significantly increase the resource.

A preliminary mine plan has been prepared for the Pipestone by J. H. Reedman and Associates which classifies various tonnages from 65.8 to 112.8 million tonnes according to titanium dioxide cut-off grades, provides proposed open pits, and estimates stripping ratios; however more detailed drilling is required to support a 30,000 tons per day operation. Metallurgical studies by Dr. D. Yang have provided a flow sheet for the economic processing of titanium dioxide, vanadium pentoxide and magnetite. These studies will form the basis for a feasibility study of the deposit.

Manigotagan Silica Deposit

At Manigotagan, about 170 km northeast of Winnipeg, Gossan holds four Quarry Leases covering a silica sand deposit on the east shore of Lake Winnipeg. This property is directly across from Black Island where silica was extensively quarried prior to the island becoming a Provincial Park. Gossan's 194-hectare property may host a substantial tonnage of silica sand as three reconnaissance drill holes, on and near the property, indicate the silica bed to be 15 meters thick.

The silica sand has a potential use in foundries and smelters or in the production of float or container glass.

Management is considering the initiation of marketing and feasibility studies which may lead to commercial production at this deposit. Initially, a program of drilling and analysis will be undertaken for which permitting was recently approved. Gossan has received several inquiries from potential purchasers of silica sand over the past year.



Inwood Magnesium Deposit

The 1640 hectare Inwood Magnesium Property is located in south-central Manitoba. In total Gossan's regional land package covers 6,245 hectares in several claim blocks. The Company's strategy is to hold all of the area's near-surface beds of high-purity dolomite that are well above the water table.

Previous drilling of 20 holes and surface mapping by the Manitoba Geological Survey has outlined a resource of 67 million tonnes of high-purity magnesium dolomite - 21.6% MgO with less than 0.23% residue - and inferred an additional 33 million tonnes of similar material (Bamburak & Gale-1993). During the summer of 2003, a 5-hole drill program was undertaken at the property. The results of this program will be aggregated and reported upon in conjunction with a more extensive future drill program.

The dolomite beds extend from surface outcrop to a consistent 15 metres depth. Because Gossan acquired ground with very little overburden, the magnesium dolomite can be mined economically using open quarry methods.

In the fall of 2003, a 75-kilogram sample of dolomite was subjected to a variety of tests and measurements in a characterization study by Mintek, a leading, South African-based, mineral and metallurgical technology firm. Mintek determined that the Inwood dolomite was suitable for magnesium production using a new silicothermic process. Testing found that the high-purity Inwood dolomite was chemically superior in most respects to the benchmark dolomite used by Mintek for technical evaluation and, when calcined, the Inwood dolomite shows favourable behavior similar to the calcined benchmark.

Mintek is developing an advanced thermal process based on silicothermic reduction of calcined dolomite, called the Mintek Thermal Magnesium Process. This new technology is potentially superior to both the Pidgeon and the Magnetherm conventional vacuum processes as it operates at atmospheric pressure and at higher

temperatures for better recoveries and throughputs.

This new technology is continuous rather than batch and it can provide for substantially larger production units than the Magnetherm process, with expected improvements to capital and operating costs. Manitoba Hydro's low-cost industrial electricity rates should also provide this energy-intensive project with a significant cost advantage.

In March of 2004, Gossan's management along with representatives of Hatch and the Manitoba Government met with Mintek executives in Johannesburg, the site of Mintek's pilot plant, to discuss the on-going development of the Mintek Thermal Magnesium Process. Mintek is conducting a second stage of testing this summer using a continuous magnesium condenser. Based upon these discussions, an initial economic assessment by Hatch and rising magnesium prices, Gossan is proceeding to advance this project.

Currently an initial environmental study is underway at the Inwood Property as well as permitting for the extraction of a bulk sample. Gossan anticipates shipping the bulk sample to Mintek this fall for test production of magnesium metal early in 2005. A successful outcome of this test would lead to completion of a pre-feasibility study for the Inwood Project.

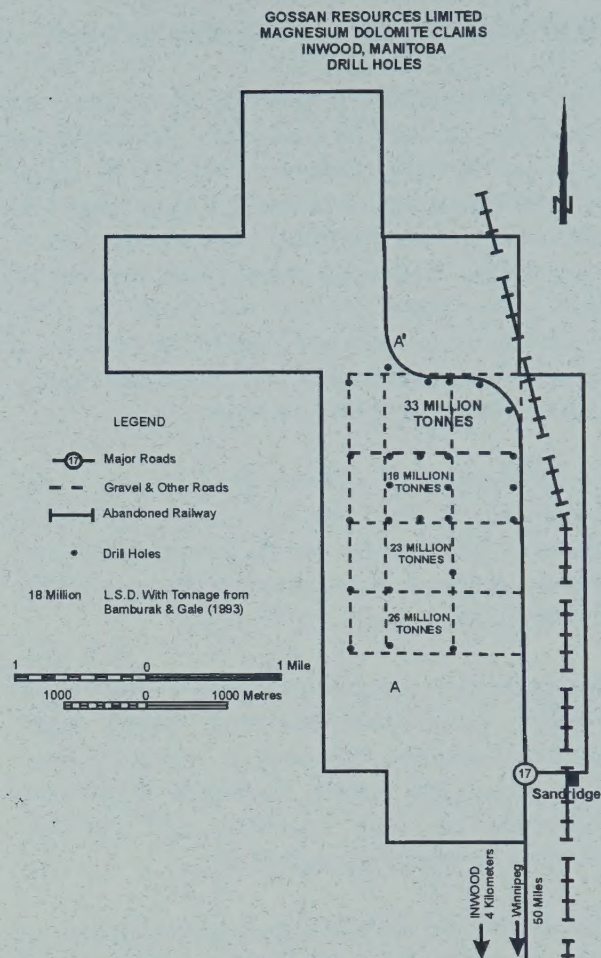
Previously in 1997, commercial grade magnesium metal was produced successfully from the Inwood deposit in pilot scale tests by Hazen Research Inc. of Denver Colorado. Test results using the Magnetherm method achieved recoveries of 91.8% magnesium. At this recovery level the deposit has a potential to produce about 275 pounds of magnesium metal per tonne of dolomite. (The current spot price for magnesium is US \$1.40 per pound).

Overall the baseline forecast for the Western World's magnesium demand amounts to an average growth rate over the next decade of 4.9% per annum. The outlook for future growth



in the electronic, aerospace and particularly the automotive industries are especially strong. In the automotive industry, magnesium reduces weight and simplifies assembly together with providing strength and rigidity. Higher oil prices are pushing the auto industry to make lighter and more fuel efficient cars and trucks. North America's automobile manufacturers continue to seek a reliable supply of competitively priced magnesium alloys.

Magnesium prices have improved significantly over the past year with spot prices hitting US \$1.40 per pound. This is a reversal of declining prices over several years as Chinese producers rapidly increased production capacity. A year ago, magnesium was priced at US \$1.06.



Separation Rapids Specialty Metals Project

The Separation Rapids Specialty Metals Project, covering 2,224 hectares, is located 58 kilometres north of Kenora, Ontario. Our 50.1% joint-venture partner in the property is now Angus & Ross PLC of England, in which Cabot Corporation is a large shareholder. Previously this joint-venture interest was held by The Tantalum Corporation of Canada, "TANCO", a wholly-owned subsidiary of Cabot Corporation. Gossan retains its 49.9% interest.

In the summer of 2004, a field program was conducted at the property consisting of 4 diamond drill holes and a geochemical soil survey. Angus & Ross, the operator, has yet to report on the results.

The property is central to the highly prospective English River greenstone belt, which hosts lithium, tantalum and cesium mineralization. Exploration has already indicated significant anomalies of both tantalum and lithium, probably contained in pegmatites.

The demand for tantalum, the high tech metal, is growing steadily for use in the manufacture of capacitors that regulate the flow of electricity in cellular phones, pagers, computers and other electrical appliances. Other applications range from artificial hips to super-alloys for the aeronautics industry to corrosion resistant equipment for the chemical and pharmaceutical sectors.



The Claims Network

The Claims Network (TCN) provides the property and casualty insurance industry with valuation information and software that facilitates the settlement of claims. The company specializes in the 'car stereo' and 'home content' markets, selling data to insurers or completing claims for them on a fee for service basis. Clients include most Canadian insurance companies, as well as a number in the U.S.

TCN's unique asset is its extensive library of historical product model data that can identify "like, kind and quality" equivalent goods that are currently available in the marketplace. In addition to providing price and depreciation information, TCN also has a database of vendors which allows the claimants to purchase replacement goods easily, or enable insurance adjusters to request supplier quotes by email.

TCN is using their new system internally to process home content assessment claims for their clients, which include the vast majority of Canadian insurance companies. 'Car Stereo' system clients include Manitoba Public Insurance and Saskatchewan Government Insurance. Both of these companies utilize an internet-based process.

Recent developments include focusing on the 'car stereo' market for which the company has the most extensive databases; the establishment of independent assessors in key regional markets to handle claims in those areas on an agency basis; and the per-use sale of its data library to third-party vendors.

Gossan completed its purchase of a 30% equity interest in the company in July 2002.



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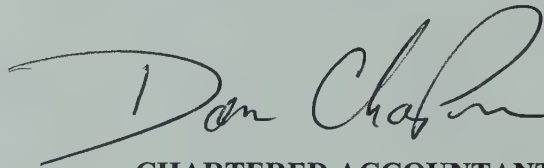
AUDITOR'S REPORT

To the Shareholders of *Gossan Resources Limited*:

I have audited the balance sheets of *Gossan Resources Limited* as at March 31, 2004 and 2003 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based upon my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANT

Winnipeg, Manitoba
August 10, 2004

Comments by Auditor for U.S. Readers

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as described in note 2 to the financial statements. My report to the shareholders dated August 10, 2004 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditor's report when they are adequately disclosed in the financial statements.



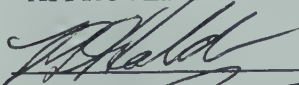
CHARTERED ACCOUNTANT

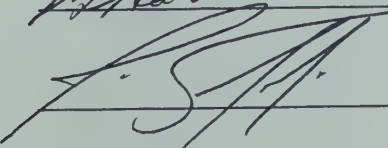
Winnipeg, Manitoba
August 10, 2004

GOSSAN RESOURCES LIMITED
BALANCE SHEETS
AS AT MARCH 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Current Assets		
Cash	\$ 440,713	\$ 569,690
Accounts receivable	15,016	12,734
Prepaid expenses	<u>9,600</u>	<u>-</u>
	465,329	582,424
Capital assets (Notes 2 & 5)	9,633	-
Less: Accumulated amortization	<u>713</u>	<u>-</u>
	8,920	-
Mineral properties (Notes 2 & 3)	2,591,508	2,175,024
Investment in The Claims Network (Note 4)	<u>455,000</u>	<u>455,000</u>
	<u>\$ 3,520,757</u>	<u>\$ 3,212,448</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 23,061	\$ 69,920
	<u>23,061</u>	<u>69,920</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 7)	\$ 7,448,208	\$ 6,432,388
DEFICIT	<u>(3,950,512)</u>	<u>(3,289,860)</u>
	3,497,696	3,142,528
	<u>\$ 3,520,757</u>	<u>\$ 3,212,448</u>

APPROVED ON BEHALF OF THE BOARD:

 DIRECTOR

 DIRECTOR

GOSSAN RESOURCES LIMITED
STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED MARCH 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Interest income	\$ 3,816	\$ 1,698
Other net income (note 8)	<u>754</u>	<u>312</u>
	4,570	2,010
 EXPENSES		
Investor Relations	67,785	12,975
Management fees	30,500	34,500
Office and general	151,875	62,711
Public company expenses	70,088	64,444
Travel and related	83,645	17,121
Stock-based compensation expense	250,920	-
Amortization and other	<u>713</u>	<u>-</u>
	655,526	191,751
 LOSS, before the following	 \$ <u>(650,756)</u>	 \$ <u>(189,741)</u>
Mineral properties written off (note 3)	(9,696)	(745,304)
 NET LOSS, for the year	 \$ <u><u>(660,652)</u></u>	 \$ <u><u>(935,045)</u></u>
 DEFICIT, beginning of year	 \$ (3,289,860)	 \$ (2,354,815)
 DEFICIT, end of year	 \$ <u><u>(3,950,512)</u></u>	 \$ <u><u>(3,289,860)</u></u>
 LOSS PER SHARE	 <u><u>(0.051)</u></u>	 <u><u>(0.072)</u></u>

GOSSAN RESOURCES LIMITED
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2004

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss for the year	\$ (660,652)	\$ (935,045)
Less: non - cash charges		
Amortization	713	-
Write off mineral claims	9,696	745,304
Stock-based compensation	250,920	-
	<u>(399,323)</u>	<u>(189,741)</u>
Changes in non-cash working capital components		
Increase in accounts receivable	(2,282)	(9,858)
Increase in prepaid expenses	(9,600)	
Decrease in due to directors		(51,460)
Decrease in due to shareholders		(118,516)
Increase in accounts payable	(46,859)	31,078
	<u>(58,741)</u>	<u>(148,756)</u>
Cash flows from operating activities	(458,064)	(338,497)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral properties	(426,180)	(203,654)
Investment in fixed assets	(9,633)	-
Investment in The Claims Network	-	(257,100)
Cash flows from investing activities	<u>(435,813)</u>	<u>(460,754)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock	764,900	1,363,590
Cash flows from financing activities	<u>764,900</u>	<u>1,363,590</u>
Net increase in cash and cash equivalents	(128,977)	564,339
Cash and cash equivalents, beginning of year	<u>569,690</u>	<u>5,351</u>
Cash and cash equivalents, end of year	\$ <u><u>440,713</u></u>	\$ <u><u>569,690</u></u>

GOSSAN RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004

1. NATURE OF OPERATIONS

Gossan Resources Limited is a public corporation that was incorporated federally on June 16, 1980. The Company, directly and through joint ventures is in the business of acquiring and exploring resource properties that it believes contain mineralization. To date, the Company has not earned significant revenues and is considered to be in the development stage.

The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims and the ability of the Company to obtain necessary financing to complete the development and future profitable production or proceeds from the disposition thereof.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Going Concern

These financial statements have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has recorded a loss from operations, and does not have a source of operating cash flows to meet liabilities. Adequate working capital was maintained by three equity financings during the year. The Company's ability to continue is dependent upon sufficient equity financing being raised and the attainment of profitable operations.

These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

(b) Mineral Properties

Mineral properties and related expenditures are recorded at cost, net of option payments received, government grants and other proceeds applicable to the particular properties. The net accumulated costs are deferred until the properties to which they relate commence production, are sold or abandoned. The costs will be amortized over the estimated useful lives of the properties following the commencement of production or written down

The amounts shown for mineral properties represent costs incurred to date and do not necessarily represent present or future values. Periodically, a determination will be made by management as to the status of each property. Where a property shows no promise from prior exploration results and is dormant, the claims may be allowed to lapse. At management's discretion, the claims will be written off or written down to a nominal value where an interest in the claims remains. Management will also periodically determine where an exploration property is impaired whether the carrying value of such property should be written down. See also note 3.

GOSSAN RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004

(c) Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is recorded on the declining balance basis at rates designed to amortize the cost of the capital assets over their estimated useful lives, based on the following annual rates:

Equipment	20%
Computer equipment	30%
Furniture and fixtures	20%

(d) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes. Although these estimates are based on management's best knowledge of current events and actions that the company may undertake in the future, actual results could differ from the estimates.

(e) Financial Instruments

The carrying value of current assets and current liabilities approximates their fair market value due to the relatively short period to maturity of these instruments.

(f) Foreign Currencies

Revenues and expenses stated in foreign currencies are translated into Canadian dollars using the rates of exchange prevailing at the respective transaction dates.

(g) Stock-based Compensation and Other Stock-based Payments

The Company has adopted the new recommendations of the CICA Handbook Section 3870, stock-based compensation and other stock-based payments, which applies to all awards granted to non-employees on or after January 1, 2002. This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

As encouraged by Section 3870, the Company has enacted prospectively early adoption of the fair value based method of accounting for awards issued to employees for the fiscal year beginning April 1, 2003.

The new standard requires that all stock-based awards made to employees and non-employees be measured and recognized using a fair value based method. In prior years, stock-based compensation expense was recognized only when stock-based compensation awards were made to non-employees, while pro-forma disclosure was acceptable for awards made to employees.

(h) Loss per Share

Basic loss per share is calculated using the weighted average number of shares outstanding during the respective fiscal years. The calculation of weighted average number of shares excludes the potential conversion of outstanding stock options and warrants, the inclusion of which would decrease the amount reported as loss per share.

(i) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are computed based on the differences between the carrying amount of the assets and the liabilities on the balance sheet and their corresponding tax values, using the enacted income tax rates at each balance sheet date. Future income tax assets can also result by applying unused loss carry-forwards and other deductions. The valuation of any future income tax asset is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

GOSSAN RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004

3. MINERAL PROPERTIES

	<u>2004</u>	<u>2003</u>
Pipestone Lake	\$ 1,660,558	\$ 1,660,558
Bird River	400,475	268,844
Inwood	175,247	101,490
Separation Rapids	56,810	56,810
Angelina/Bissett area	189,156	-
Sharpe Lake	24,397	5,800
Other	<u>84,865</u>	<u>81,522</u>
Balance, end of year	\$ <u>2,591,508</u>	\$ <u>2,175,024</u>

During the year \$9,696 was incurred in the acquisition of a potential silver prospect near Beardmore Ontario, after analysis of the claim the option was dropped and the amount written off. A review of the Company's mineral properties at the end of the previous year end resulted in a write-down of \$745,304.

4. INVESTMENT IN THE CLAIMS NETWORK INC.

The Claims Network provides the property and casualty insurance industry with valuation information and software systems to facilitate the settlement of insurance claims. Gossan Resources Limited has invested \$455,000 in the company and holds a 30% equity interest. The Claims Network is a private company and as there is currently no visible market for the shares, the investment has been recorded at cost.

5. CAPITAL ASSETS

	March 31, 2004			March 31, 2003
	Cost	Accumulated Amortization	Net Book Value	
Computer equipment	\$ 5,084	\$ 593	\$ 4,491	-
Office equipment				
Furniture and fixtures	<u>4,549</u>	<u>120</u>	<u>4,429</u>	<u>-</u>
	\$ 9,633	\$ 713	\$ 8,920	-

GOSSAN RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004

6. RELATED PARTY TRANSACTIONS

A private company controlled by one of the former directors charged \$30,000 for geological work and \$6,000 for administrative services and another director received fees totalling \$12,000 during the year ending March 31, 2004. Geological fees totalling \$3,096 were also paid to a director for property evaluations during the year.

Patrick D. Holden was appointed President of Gossan Resources Limited on October 1, 2003. He is an officer and principal shareholder of Central Geophysics Ltd. and Dominion Drilling Inc. Both of these companies are suppliers of geological services to the Gossan and have received \$87,918 for diamond drilling and staking during the year ending March 31, 2004 of which \$5,244 was received after October 1, 2003. During the year ending March 31, 2003, the sum of \$123,905 was paid to these companies.

7. SHARE CAPITAL

(a) Authorized

Unlimited common shares with no par value

(b) Issued

	Shares	\$
Balance, April 1, 2003	12,900,624	\$ 6,432,388
Issued pursuant to:		
Acquisition of mining claims	130,000	-
Exercise of May 2001 warrants	330,000	99,000
Exercise of June 2002 warrants	30,000	9,000
Exercise of December 2002 warrants	700,000	420,000
Exercise of January 2003 warrants	165,500	99,300
Private Placement February 2004	175,000	105,000
Exercise of stock options	85,000	32,600
Stock based compensation expense		250,920
Balance, March 31, 2004	14,516,124	\$ 7,448,208

During the fiscal year ending March 31, 2004, \$105,000 was raised by way of a non-brokered private placements and an additional \$659,900 was received from the exercise of warrants and stock options.

The February 2004 private placement consisted of 175,000 units at a price of \$0.60 per unit for net proceeds of \$ 105,000. Each unit comprised of one common share and one common share purchase warrant. Each warrant may purchase one common share up to March 21, 2005 at a price of \$0.90. In conjunction with the placement, a commission of \$10,500 was paid.

The December 31, 2002 warrant conversion resulted in the company issuing 700,000 flow through shares for proceeds of \$420,000 which is required to be spent on qualifying Canadian Exploration Expenses.

The January 23, 2003 warrant conversion resulted in the Company issuing 165,500 common shares for proceeds of \$ 99,300.

GOSSAN RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004

(c) Stock Options and Warrants

At March 31, 2004 the following stock options and warrants were outstanding as set out in the tables below:

Warrants	Grant/Issue Date	Number	Price -\$	Expiry Date
June 2002	June 27, 2002	3,170,000	0.30	June 27, 2004
February 2004	January 23, 2003	175,000	0.90	March 21, 2005
Total Warrants		3,345,000		

Options				
Directors	July 25, 2001	120,000	0.25	July 25, 2006
Consultants	May 23, 2002	40,000	0.30	May 23, 2004
Consultants	July 12, 2002	80,000	0.40	July 12, 2004
Directors	July 12, 2002	100,000	0.40	July 12, 2004
Directors	September 24, 2002	20,000	0.70	September 24, 2004
Directors	October 1, 2003	385,000	0.72	October 1, 2005
Directors	October 1, 2003	320,000	0.72	October 1, 2006
Consultants	October 1, 2003	20,000	0.72	October 1, 2006
Employees	October 1, 2003	50,000	0.72	October 1, 2005
Consultants	October 1, 2003	120,000	0.72	November 1, 2004
Total Options		1,255,000		

Pursuant to the new CICA standard of accounting for stock-based compensation (note 2), the fair value of all new stock options granted, in the amount of \$250,920 has been recorded as an expense in the year.

The fair value of stock options granted was estimated using the Black-Scholes option pricing model on the date of grant with the following weighted average assumptions:

Expected stock price volatility	81.2%
Expected option life	2.25 yrs
Risk free interest rate	4%
Expected dividend yield	-
Stock price at grant	\$0.72
Exercise price	\$0.72
Resultant fair value per stock option	\$0.2788

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate. Therefore, the existing models do not necessarily provide a reliable single measure of the value of the Company's stock options.

(d) Subsequent Events

Subsequent to March 31, 2004, the company issued 20,000 shares upon the exercise of director's stock options at a price of \$0.40 for net proceeds of \$ 8,000., and issued 40,000 shares upon the exercise of consultant's options at a price of \$0.30 for net proceeds of \$12,000. As a result of the June 2004 warrant conversion the Company issued 635,000 common shares for proceeds of \$190,500.

GOSSAN RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004

8. *OTHER NET INCOME*

	<u>2004</u>	<u>2003</u>
Natural Gas sales	\$ 3,751	\$ 3,270
Production Costs	2,997	2,958
Other Net Income	\$ <u>754</u>	\$ <u>312</u>

9. *INCOME TAXES*

The following table reconciles the expected income tax recovery at the statutory income tax rate to the amounts recognized in the statement of operations.

	<u>2004</u>	<u>2003</u>
Loss before income taxes as reflected in the statement of operations	<u>660,652</u>	<u>935,045</u>
Expected income tax recovery at statutory rate	244,441	75,175
Non-capital losses not recognized	<u>(244,441)</u>	<u>(75,175)</u>
Actual income taxes (recovery)	<u>-</u>	<u>-</u>

The following table reflects the future income tax asset

	<u>2004</u>	<u>2003</u>
Future income tax asset		
Non-capital loss carry-forwards for Canadian purposes	595,731	423,375
Excess of undepreciated capital cost over net book value of fixed assets	7,232	4,210
Exploration expenditures for Canadian purposes		
Unused earned depletion base	47,530	50,895
Unused cumulative Canadian exploration expenses	367,757	320,099
Unused cumulative foreign exploration and development expenses	<u>216,054</u>	<u>231,353</u>
	1,234,305	1,029,933
Less: Valuation allowance	<u>(1,234,305)</u>	<u>(1,023,174)</u>
	-	-

GOSSAN RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004

The valuation allowance reflects the Company's estimate that the tax assets will likely not be realized and consequently have not been recorded in these financial statements.

As at March 31, 2004, the following amounts are available to be applied against future years' income for tax purposes.

No amounts have been recorded in the financial statements to recognize this potential benefit.

Canadian exploration expenditures	\$ 807,923
Canadian development expenditures	128,459
Foreign exploration and development expense	583,931
Non-capital losses (expiring 2005 to 2011)	<u>1,610,085</u>
	<u><u>\$3,130,398</u></u>

10. SUPPLEMENTARY CASH FLOW INFORMATION

During the years ended March 31, 2004 and 2003 the company paid no income taxes or interest.

11. COMPARATIVE BALANCES

Certain of the prior year's balances have been reclassified to conform with the current year's presentation.

12. DIFFERENCES BETWEEN CANADIAN AND U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND PRACTICES

(a) In December 2002, FASB issued SFAS 148, "Accounting for Stock-based Compensation - Transition and Disclosure, an amendment to SFAS 123". SFAS 148 provides two additional transition methods for entities that adopt the preferable method of accounting for stock-based compensation. Further, the statement requires disclosure of comparable information for all companies regardless of whether, when or how an entity adopts the preferable, fair value method of accounting. These disclosures are now required for interim periods in addition to the traditional annual disclosure. The amendment to SFAS 123, which provides for additional methods, are effective for the periods beginning after December 15, 2002, although earlier application is permitted. The amendments to the disclosure requirements are required for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002.

(b) The financial statements have been prepared in accordance with accounting principles and practices generally accepted in Canada (Canadian generally accepted accounting principles) which differ in certain respects from those principals and practices that the Company would have followed had its financial statements been prepared in accordance with principals and practices generally accepted in the United States of America (U.S. generally accepted accounting principles).

Under U.S. generally accepted accounting principles, the accounting treatment would differ as follows:

1. Exploration costs are expensed as incurred. As a result, under U.S. generally accepted accounting principles, there is a greater expense in earlier periods and fewer write-downs in prior periods than under Canadian generally accepted accounting principles.

GOSSAN RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004

2. The value of stock options are recorded as compensation expense in the year the option is granted when the exercise price is below the market price of the share at the time the option is issued. As a result, under U.S. generally accepted accounting principles there is a greater expense than under Canadian generally accepted accounting principles.

The effects of the differences resulting from the treatment of stock options have been determined to be minimal.

Had the company followed U.S. generally accepted accounting principles in accounting for the exploration costs, the effect on the financial statements would have been as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Statements of operations and deficit			
Net loss under Canadian			
generally accepted accounting principles	\$ (660,652)	\$ (935,045)	\$ (130,717)
Adjustment for capitalization of acquisition and exploration costs			
Write down of mineral properties under Canadian generally accepted accounting principles	9,696	745,304	-
Write down of acquisition costs under U.S. generally accepted accounting principles	(426,180)	(203,654)	(5,440)
Net loss under U.S. generally accepted accounting principles	<u>\$ (1,077,136)</u>	<u>\$ (393,395)</u>	<u>\$ (136,157)</u>
Basic net loss per common share under U.S. generally accepted accounting principles	<u>\$ (0.07)</u>	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>
Diluted net loss per common share under U.S. generally accepted accounting principles	<u>\$ (0.06)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>

GOSSAN RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004

	<u>2004</u>	<u>2003</u>	<u>2002</u>
(Consolidated)Balance Sheets			
(a) Effect on mineral properties			
Mineral properties under			
Canadian generally accepted accounting principles	2,591,508	\$ 2,175,024	\$ 2,716,674
Adjustment for capitalization of exploration costs			
Current year differences	(416,484)	541,650	(5,440)
Prior year accumulated differences	<u>(2,175,024)</u>	<u>(2,716,674)</u>	<u>(2,711,234)</u>
Mineral properties under			
U.S. generally accepted accounting principles	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
(b) Effect on shareholders' equity			
Shareholders' equity under Canadian			
generally accepted accounting principles	\$ 3,497,696	\$ 3,142,528	\$ 2,713,983
Adjustment for capitalization of exploration costs			
Current year difference	(416,484)	541,650	(5,440)
Prior year accumulated differences	<u>(2,175,024)</u>	<u>(2,716,674)</u>	<u>(2,711,234)</u>
Shareholders' equity under U.S.			
generally accepted accounting principles	<u>\$ 906,188</u>	<u>\$ 967,504</u>	<u>\$ (2,691)</u>

CORPORATE PROFILE

Gossan Resources Limited is a publicly traded exploration company engaged in the discovery and development of commercial grade mineral deposits, primarily in Manitoba and northwestern Ontario. Founded in 1980, the company's expertise in identifying prospects has resulted in the development of a portfolio of well diversified properties, including a world-class titanium-vanadium-iron deposit, an extremely large scale magnesium deposit, and other potential deposits of tantalum, chromium, silica, as well as platinum-palladium and gold. On August 10th, 2004, there were 15,296,124 shares outstanding (16,506,124 shares fully diluted). Gossan trades on the TSX Venture Exchange, under the symbol GSS, and on the Frankfurt-Freiverkehr and Xetra Exchanges under the symbol GSR.

DIRECTORS AND OFFICERS:

Patrick Holden	President and Director
Lou Chastko, P.Geo., P.Eng.	Director
Ryan Cooke, P.Geo.	Director
James Masleck, P.Eng.	Director
James May, MBA	Director
Douglas Reeson, MBA	Chairman and Director
Richard Stefanyshyn, L.L.B.	Secretary and Director

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AUDITOR:

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47 Woodview Bay
Winnipeg, Manitoba, R3R 3C9

STOCK EXCHANGE:

The TSX Venture Exchange
Frankfurt-Freiverkehr & Xetra Exchanges
CUSIP

TRADING SYMBOL:

GSS
GSR
383415 10 6

SHARE STRUCTURE:

Authorized: Unlimited
Outstanding: 15,296,124
(as of August 10, 2003)

TRANSFER AGENT:

CIBC Mellon Trust Company
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